

Schedule of Audit Findings

King Conservation District King County January 1, 1994 through December 31, 1999

1. The District did not have adequate financial and administrative controls over the Special Assessment revenues it received from King County.

Description of Condition

King Conservation District did not initially establish effective or adequate financial and administrative controls that were needed to comply with its special assessment agreement with King County. As a result, at December 31, 1999, the District did not distribute most of these funds to the participating cities, could not demonstrate that it performed through contracted services approximately \$100,560 of the 1994-97 assessment from the participating cities within the assessment boundaries, and spent approximately \$262,000 more than what was available during December 1998. This put the District in a deficit position, which must be repaid using the District's portion of future assessment money. This affects the District's ability to perform at the expected level of service outlined in the agreement.

In 1994, King County passed an ordinance authorizing a special assessment for resource conservation of \$1.25 per parcel on all non-exempt properties within the District.

The ordinance required the District to maintain adequate records of accountability over these funds. The agreement is in effect until December 31, 2003.

Subsequent to the original ordinance, in November 1997, King County authorized the assessment to be increased to \$5 per parcel, imposed annually from 1998 through 2000. The ordinance distributes \$1 to the District for purposes of establishing a County-approved work program to provide technical assistance and education in conserving natural resources and improving water quality to individuals, businesses and public agencies in King County. The remaining funds are distributed to participant cities and watershed forums. The District retains 1 percent for administrative costs.

Through these ordinances, the District agreed to maintain the necessary accounts and records, including personnel, property financial and programmatic records to ensure proper accounting for all funds spent from the District's assessment. However, the District was inadequately prepared to take on this responsibility.

The following conditions contributed to the lack of accountability, inadequate monitoring, and poor record keeping:

- The special assessment funds were combined in one bank account with other District funds. Money in the account was used without consideration of the source. We believe such a system provided opportunities where assessment funds were used to pay non-assessment expenses, which lead to the deficit operating balance at the end of 1998.
- The District's accounting system did not account for special assessment revenues and expenditures. Financial and program records did not contain sufficient information to show direct and indirect costs, and contracted services provided per the county agreement. During 1998, the previous District accountant reconciled the 1994-97 and 1998 assessment revenues received to the payments to participants and identified over

\$234,000 of assessment dollars that were received but not used for their intended purpose. The money was used for general District operations.

- Turnover in key positions such as the District Manager and the Accountant affected the District's ability to maintain the level of program accountability required per the ordinance. The District continues to experience turnover that may impair its ability to perform the program requirements.
- The former District Board of Supervisors and the former District Manager did not comprehend and fully understand the extent of the responsibilities placed on them regarding the accountability over special assessments. There was no accounting system or personnel in place that could have fulfilled the requirements set forth in the County Ordinance.

Cause of Condition

The District was not prepared to manage the assessment revenues and related program requirements. The lack of adequate knowledge and training by former District finance staff created the conditions of poor record keeping and inadequate accountability. Former District staff was ineffective in establishing adequate financial and administrative controls that were needed to comply with its agreement with King County.

Furthermore, the former District Board of Supervisors and the former District Manager failed to meet their oversight responsibilities to provide necessary direction to the staff and hold staff accountable for meeting fiduciary program requirements.

Effect of Condition

The District's failure to establish an effective financial and administrative system for managing the assessment program and failure to maintain adequate financial and program records threatens the District's ability to fulfill its legal mandate under this program. Furthermore, the remaining uncertainty caused by the District's reduction in staff and expenditures may affect its future ability to complete or perform the required level of service.

Additionally, because the District did not distribute the participant cities' and watershed forums' assessment funds during 1998 and 1999, the District received interest income exceeding \$180,000 from the investments for which no accounting has yet been done.

Recommendations

We recommend the District Board of Supervisors take the necessary actions and provide the training and resources needed to maintain an effective accounting system that ensures the District meets its obligations under the agreement with King County.

We recommend the District continue efforts to pay the amounts due to the participant cities and watershed forums from the 1994-97 assessment. We further recommend the District continue efforts to distribute the 1998-99 assessment revenues and resolve the issue of interest due to participating cities and watershed forums.

We also recommend the District work with King County to develop a complete and accurate accounting of all the special assessment funds available and spent as originally contemplated in 1994 agreement.

District's Response

The District has reconciled and reflected in the financial records the balances due to each of the member cities and watershed forums covered by the assessment agreement. As of December 1999, the District had enough cash on hand to completely liquidate the remaining liabilities to the cities and forums, and had an operating surplus remaining that is considered adequate for current operations.

Project files and accounts are now maintained to account for any District work that is performed in lieu of a cash distribution to pay assessment funds to a jurisdiction.

Because of the problems with the accounting records before 1998, the District did spend some of the assessment funds that should have been allocated to the cities/watersheds assessment liabilities. However, as a result of the reconciliation of these liabilities, each jurisdiction will get the entire amount owed to it under the assessment program that started in 1994. The District was able to make the liabilities to the jurisdictions whole by undergoing budget cuts during 1998, and allocating the savings back to the jurisdiction liabilities.

1998 budget cuts made in the form of reductions in the number of staff did not undermine the District's ability to complete the tasks outlined in its 1998-99 workplan and the District continues to satisfy production goals established in the annual work plan approved by the King County Council.

Though the District notified jurisdictions about the availability of assessment funds, it was not until spring 1999 that an application/award process that complied with the RCW and the KC ordinance criteria was fully implemented. Since implementing the current application/award process, nearly \$3.4 million of the \$3.8 million assessment funds liability (collections through the end of 1999) has been distributed as a result of agreements that were approved and signed.

The District is addressing the issue of allocating interest collected on assessment funds. As assessment funds are now being distributed soon after their collection, it is anticipated that in the future the amount of interest earned on undistributed balances will decrease significantly.

Auditor's Remarks

We appreciate the District's commitment to resolve the issues noted in our finding. Based on the response, the recommendations are being addressed, and we will review these areas again in our next audit.

We wish to thank the District's personnel and management for their cooperation and assistance during the audit.

Applicable Laws and Regulations

The special assessment agreement to King County Ordinance 10981, which established the roles and responsibilities of the District with respect to the authorization and use of the funds required the District to:

II. A. create a work plan showing the detailed intended uses of funds including a budget, broken out by major activities, for the expenditure of all funds. . .

V. A. The district shall maintain accounts and records, including personnel, property, financial and programmatic records and other such records as may be deemed necessary by either party to ensure proper accounting for all fund expended from the district's assessment. All such records shall sufficiently and properly reflect all direct and indirect costs of any nature expended and services provided under this agreement.

Schedule of Audit Findings

King Conservation District King County January 1, 1994 through December 31, 1999

- 2. The District's poor financial records and inadequate financial and program accountability has contributed to a doubt about its ability to continue as a going concern.**

Description of Condition

Because of the incomplete nature of the District's records during the period of January 1, 1994, through December 31, 1998, we were unable to obtain sufficient information and documentation to satisfy ourselves by means of other auditing procedures that the District properly accounted for all its revenues and expenditures. However, we did note that the District made improvements during 1999 and we were able to audit the 1999 financial statements. We found the 1999 financial statements to be complete and accurate.

Cause of Condition

During the period of audit, the District experienced significant turnover in key positions such as the Board of Supervisors, District Accountant, District Manager and technical staff. We believe this turnover contributed greatly to the poor condition of the records, incomplete financial information and inadequate program accountability.

Effect of Condition

The lack of adequate accounting and reporting combined with the degree of staff turnover in key positions made it ineffective to audit all the financial statements of the District. Therefore, we are unable to state that the District's financial statements and its Schedule of Federal Assistance for the period January 1, 1994, through December 31, 1998, are accurate and complete.

Furthermore, the turnover of key employees raises doubt about the District's ability to perform at expected levels of service and seriously threatens the District's future financial condition.

Recommendation

We recommend the District implement an adequate system of staffing and accountability necessary to properly account for the use of public funds.

District's Response

During the period under audit, staff turnover was caused by several factors – personality conflicts, wrong job fit, and the Board's efforts to solve those issues and cut costs. Thus, some turnover in District personnel, while not ideal, actually was undertaken with the idea to ultimately improve District operations. The former District management structure concentrated management functions in one person, the District Manager. As this position required sophisticated financial management skills as well as conservation district management skills, it was difficult to find this skill blend in one person. The new Board reconfigured the management positions so that they are specialized, and promoted/hired employees skilled in those functions to fill those positions and work as a management team. Two of these three positions were filled with employees with a

total of more than 12 years of tenure at the District. In addition, the District hired a Financial Manager with more than 15 years of financial management experience.

As a result of these changes, turnover at the District has now stabilized.

It is important to note that the District has met the requirements of the King County Council approved work plan for the years 1998 and 1999. The District submitted to the Council its workplan for 2000, which the Council approved in summer 1999. The District is currently meeting the production goals established by the District and the Council in the 2000 workplan. The District has submitted its 2001 workplan to the Council for approval during summer 2000.

As a result of cuts in spending during 1998, the District is able to completely liquidate all outstanding liabilities and now has a surplus that is considered adequate to support current operations into 2001. In addition, the District has a stable funding source from Washington State Conservation Commission grants that it expects will continue in the future.

Auditor's Remarks

We appreciate the District's commitment to resolve the issues noted in our finding. Based on the response, the recommendation is being addressed, and we will review this area again in our next audit.

We wish to thank the District's personnel and management for their cooperation and assistance during the audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

The accounts shall show the documents kept or required to be kept, necessary to isolate and prove the validity of every transaction . . .

Schedule of Federal Audit Findings and Questioned Costs

King Conservation District King County January 1, 1994 through December 31, 1999

1. The District did not have adequate accountability for expenditures through the Urban Resource Partnership federal program.

Description of Condition

The King Conservation District could not provide adequate documentation for expenditures of a federal grant from the Puget Sound Urban Resources Partnership. District staff did not establish adequate financial and administrative controls needed to comply with grant requirements. As a result, we question the entire grant of \$1,756,940.

During 1995-98, the District received grant funds totaling \$1,756,940 from the Partnership, a consortium of seven federal agencies and the Washington State University Cooperative Extension Service of King County. The Partnership worked collaboratively with local and state governments, community organizations, private and non-profit organizations in an effort to protect, improve and rehabilitate critical urban environments.

The District received this grant through a series of cooperative agreements with the U.S. Department of Agriculture.

Through these agreements, the District agreed to be the grant recipient and to distribute and account for the grant funds to subrecipients on behalf of the Partnership. However, the District was not prepared to manage the program and did not establish adequate financial and administrative controls that were needed to comply with the grant agreement.

The following conditions contributed to the lack of financial and administrative accountability, inadequate monitoring, and poor record keeping leading to the subsequent questioned costs:

- The Partnership program funds were combined in one bank account with other District funds. Money in the account was used without consideration of the source. During the period of grant activity, the District was unable to provide an accurate accounting of the Partnership program, resulting in numerous requests for advances that were used to pay the reimbursement requests when they came in. We believe such a system provided opportunities where Partnership funds may have been used to pay non-program expenses.
- Although the District was the recipient of the grant, Partnership program decisions and actions such as grant awards to subrecipients were made by the federal agencies without the explicit involvement of the District Board of Supervisors. This put the District in a position of being responsible for ensuring compliance with the agreements, without having been directly involved in the awarding of the grants.
- Project files were in such a poor condition that they had to be reconstructed by the Partnership Coordinator during October and November of 1998, after the majority of the projects were completed. The existing files are incomplete and do not provide an adequate accounting of the program expenditures. The District cannot reconcile the

funds received to the amounts spent. Furthermore, the District charged the cost of reconstructing the records to the special assessments program, which is unallowable.

- The Partnership Coordinator reported solely to the Consortium, even though the Coordinator was a District employee. This employee did not report to anyone at the District and worked from an office away from the District office and was not supervised on a daily basis by anyone from the District. The Partnership Coordinator was responsible for monitoring the projects and authorizing payments, but there was no evidence of such activities in the project files.
- Members of the District Board of Supervisors failed to comprehend and understand the responsibilities placed on them regarding the fiscal accountability of the program. The Board was kept informed of the program by the District Manager's summary briefings during regular Board meetings, but did not receive actual reports on program expenditures.
- The District did not monitor subrecipients as required by the federal Single Audit Act. Our review of the subrecipient files identified a large number of files that lacked adequate supporting documentation of the costs reimbursed, or project monitoring performed.
- The Partnership Coordinator and the District's accounting system failed to adequately track project expenditures so that the District could ask for and receive reimbursements from the federal government on a timely basis.

Cause of Condition

The District was not prepared to manage the program. The lack of adequate knowledge and training by the Former District Board of Supervisors, the former District Manager, and the former District finance staff regarding federal program accountability resulted in poor record keeping and inadequate accountability.

Furthermore, the District's former Board of Supervisors and the former District Manager failed to meet their oversight responsibilities of providing necessary direction to the staff and holding staff accountable for program requirements.

This was exacerbated by the lack of federal guidance and assistance regarding fiscal program accountability by the participating federal agencies of the partnership.

Effect of Condition and Questioned Costs

The lack of program accountability has created uncertainty about the use of program funds and jeopardizes the District's eligibility for future federal funding. The District no longer administers the program. Total questioned costs are \$1,756,940.

Recommendations

We recommend the District resolve the program compliance deficiencies and the questioned costs with the appropriate federal agencies.

District's Response

The District is confident that its liability will be minimal and any costs at issue will be found to be the responsibility of the Partnership and/or project subgrantees. To the best of the District's knowledge, all Urban Resources Partnership (URP) grant funds received by the District were dispersed to awarded projects and project subgrantees. These funds were not used to enrich the District.

As stated in the Description of Condition, the District no longer administers this grant. It is now administered by King County. The URP program did not allocate a budget for the District to establish administrative controls, so the District utilized its own available resources to manage the program to the best of its ability.

Since early 1999, an accounting system that tracks revenues and expenses by grant/project has been in use, minimizing the possibility of revenues being misdirected and facilitating reconciliation of grant/project funds. For current District projects and grants, complete project files are maintained.

Auditor's Remarks

We appreciate the District's commitment to resolve the issues noted in our finding. Based on their response, the recommendation is being addressed, and we will review this area again in our next audit.

We wish to thank the District's personnel and management for their cooperation and assistance during the audit.

Applicable Laws and Regulations

Revised Circular A-87, Costs Principles for State, Local and Indian Tribal Governments, Attachment A, Paragraph C. 1. J., provides guidance for auditors and auditees regarding allowability of costs. It states in part that to be allowable under federal awards, costs must meet the following general criteria:

- j. Be adequately documented.

Federal Office of Management and Budget (OMB) A-133 Circular, Subpart A, Section .105, Questioned Costs, provides guidance to auditors and auditees regarding questioned costs. It states in part:

Questioned costs means a cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

OMB Circular A-102 Common Rule .37 and .40(a) contain the requirements for subrecipient monitoring. They require a pass-through entity to monitor the subrecipient's activities to provide reasonable assurance of compliance with federal requirements.

